

February 20, 2012

Tax Policy Committee – HB4145

Honorable Tax Policy Committee Members:

Thank you for the opportunity to speak in support of HB 4145.

My name is Rob Sarro and I am the County Administrator for Allegan County.

In November of 2011, Allegan County was asked by our construction management firm whether or not we would be providing our tax exempt number for contractors to utilize in purchasing materials for our jail construction project? To be honest, I was surprised by the question. Clearly, the County itself is tax exempt, but why would the contractors be asking to purchase under our tax exempt number? After a review by our Corporate Counsel, the fact remained that the County itself is tax exempt; but the contractors purchasing materials for the construction of our jail are considered users of the materials and must pay tax(es) under Michigan Law.

The attached Department of Treasury Revenue Administrative Bulletin 1999-2 states, "Five limited sales and use tax exemptions are available to a contractor as a consumer in the business of constructing, altering, repairing, or improving real estate for others." These exemptions are identified as A) Non-profit hospitals, B) Qualified Nonprofit Housing, C) Church Sanctuaries and D) Qualified Water Pollution Control Facilities and Qualified Air Pollution Control Facilities.

Considering the limited, five exemptions, even if Allegan County had supplied its tax exemption certificate to its contractors as requested, and/or purchased materials directly for our jail project, based on Treasury Bulletin 1999-2, the contractors would still be required to pay the applicable sales or use tax.

While our laws establish Michigan counties' exemption from sales/use taxes generally, a peculiar mandate of the same laws require that our citizens pay inflated public construction costs as a result of the contractor's obligation to pay sales/use taxes and pass that expense on to the counties.

Allegan County's recent experience serves as an example of the extra financial burden placed upon county governments as a result of current Michigan Law. Our County has suffered an additional, direct, construction cost of \$476,616 as a result of sales/use taxes paid by contractors that were passed on in their bids/contracts. Also, Allegan County, having issued bonds for a large portion of its jail project at an interest rate of 2.93%, has the distinct privilege of paying as much as \$160,243 more in interest on that same \$476,616 over twenty (20) years. That is \$636,859 in taxes and interest solely due to the application of sales/use taxes on contractors' materials and equipment purchases for a building the County is mandated by the State of Michigan to provide.

We urge you to please make the necessary changes to ensure that counties remain exempt from sales/use taxes both directly and indirectly in meeting their mandates to provide public facilities including but not limited to county jails.